

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02

OMB-01 SAM-01 NEA-10 DRC-01 /200 W

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R 041835Z MAR 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7272

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 PARIS 5438

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FRENCH ECONOMICS MINISTER ON EXTERNAL FINANCIAL
QUESTIONS

1. SUMMARY. IN INTERVIEW PUBLISHED BY LE MONDE DATED MARCH 5,
ECONOMICS MINISTER GISCARD D'ESTAING CONVERGED VARIOUS EXTERNAL
FINANCIAL QUESTIONS, INCLUDING OUTLOOK FOR EUROPEAN MONETARY
UNION, GOLD AND RECYCLING OF SURPLUSES ACCRUING TO OIL-PRODUCING
COUNTRIES. HE EXPANDED ON THOUGHT EXPRESSED PREVIOUSLY (PARA 4,
PARIS 3608) THAT EUROPEAN COOPERATION ON EXCHANGE RATE POLICY
DID NOT NECESSARILY HAVE TO INVOLVE PRESENT "SNAKE" TECHNIQUE,
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AND OUTLINED THREE ALTERNATIVES FRENCH WERE STUDYING. HE MADE

TRADITIONAL FRENCH PLUG FOR ARRANGEMENT TO REVALUE MONETARY GOLD STOCKS, WHICH COULD THEN BE USED IN INTRA-EUROPEAN SETTLEMENTS AND WHICH MIGHT ALSO RELEASE OFFICIAL EUROPEAN FOREIGN EXCHANGE HOLDINGS FOR USE IN SETTLING EXTRA-EUROPEAN DEFICITS OF EUROPEAN COUNTRIES. UNDER HEADING OF RECYCLING, HE SUGGESTED EUROPE SHOULD MAKE AN EFFORT TO PERSUADE OIL-PRODUCING COUNTRIES TO HOLD PART OF THEIR RESERVES IN EUROPEAN CURRENCIES. END SUMMARY.

2. MONTHLY EUROPEAN ECONOMIC SUPPLEMENT WHICH LE MONDE PUBLISHES JOINTLY WITH LA STAMPA, THE TIMES AND DIE WELT, DATED MARCH 5, CARRIES INTERVIEW WITH FRENCH ECONOMICS MINISTER GISCARD D'ESTAING ON VARIOUS EXTERNAL FINANCIAL QUESTIONS. FOLLOWING IS RESUME OF GISCARD'S PRINCIPAL COMMENTS.

3. EUROPEAN MONETARY UNION. -GISCARD AGAIN SAID FRANCE WAS PREPARED TO EXAMINE WITH EC PARTNERS WHAT FORM EUROPEAN MONETARY COOPERATION MIGHT TAKE FOLLOWING SIX-MONTH PERIOD WHICH FRANCE HAS SET AS LIMIT FOR FRANC FLOAT. HE REITERATED THAT EUROPEAN MONETARY "SNAKE" IN ITS PRESENT FORM WAS NOT THE ONLY POSSIBILITY, AND PERHAPS NOT THE MOST APPROPRIATE, GIVEN PRESENT WIDESPREAD CURRENCY FLOATING. FRENCH WERE STUDYING FOLLOWING ALTERNATIVES:

(A) EACH EC COUNTRY MIGHT UNDERTAKE TO MAINTAIN SPECIFIED MARGINS FOR ITS OWN CURRENCY, BUT THESE MARGINS MIGHT VARY FROM COUNTRY TO COUNTRY IN FUNCTION OF DIFFERING ECONOMIC AND BUSINESS CONDITIONS.

(B) 2.25 PERCENT MARGIN MIGHT BE KEPT AS GENERAL RULE, BUT CENTRAL BANKS, WITHOUT ANY PUBLIC ANNOUNCEMENT, MIGHT SUSPEND THE RULE FOR CERTAIN CURRENCIES DURING CERTAIN PERIODS.

(C) INSTEAD OF REQUIRING COUNTRIES TO INTERVENE ONLY WHEN THEIR CURRENCIES WERE AT OUTSIDE LIMITS OF .../...STONE

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INFO OCT-01 EA-11 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

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FM AMEMBASSY PARIS

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"SNAKE," INTERVENTION MIGHT BE DIRECTED TOWARDS THE MIDPOINT OF THE "SNAKE." THUS, ALL PARTICIPATING COUNTRIES WOULD BE CALLED UPON TO ACT IN DEFENSE OF "SNAKE" AND NOT JUST THOSE WITH STRONGEST AND WEAKEST CURRENCIES.

4. GOLD.

(A) ANOTHER DIFFICULTY IN PROPER FUNCTIONING OF "SNAKE" HAS BEEN FACT THAT AT ITS PRESENT OFFICIAL VALUE, GOLD IS NOT AVAILABLE FOR INTRA-EUROPEAN SETTLEMENTS. THIS IS WHY SOME STEP TO REACTIVATE MONETARY GOLD IS FUNDAMENTAL QUESTION FOR EUROPE. EVERYBODY, INCLUDING FRANCE, PREFERS WORLD-WIDE SETTLEMENT
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OF THIS QUESTION IN AGREEMENT WITH U.S. IF THAT IS NOT POSSIBLE, HOWEVER, SOMETHING MUST BE DONE ON EUROPEAN BASIS.

(B) ON SUBSTANCE OF QUESTION, FRANCE DOES NOT FAVOR RETURN TO GOLD STANDARD. OBJECTIVE IS RATIONAL MONETARY SYSTEM IN WHICH GOLD WILL HAVE A ROLE SO LONG AS THAT RATIONALITY IS NOT COMPLETE. BEST PROOF THAT GOLD STILL HAS A ROLE TO PLAY IS FACT THAT ITS MOST DETERMINED OPPONENTS, SUCH AS U.S.; GERMANY AND ITALY, ARE NOT WILLING TO LET LOOSE OF ANY OF THEIR GOLD. FRENCH POSITION IS NOT THAT A NEW CONVENTIONAL PRICE SHOULD BE FIXED FOR GOLD AND THAT THIS NEW CONVENTIONAL PRICE SHOULD BE FUTURE STANDARD FOR MONETARY

SYSTEM. RATHER, IT IS THAT THERE SHOULD BE A
POSSIBILITY FOR GOLD SETTLEMENTS AMONG CENTRAL BANKS,

WHICH WOULD EXCHANGE GOLD AMONG THEMSELVES "LIKE A
MONETARY RAW MATERIAL."

(C) COUNTRIES WOULD BE LESS CONCERNED ABOUT LOSING
A PART OF THEIR FOREIGN EXCHANGE RESERVES IF THEIR
GOLD RESERVES WERE REVALUED. THUS, GERMANY COULD
ACQUIRE GOLD FROM ITS EUROPEAN PARTNERS AGAINST FOREIGN
EXCHANGE, AND EUROPE WOULD SETTLE ITS 1974 EXTERNAL DEFICIT
IN FOREIGN EXCHANGE WITHOUT DECREASING ITS TOTAL GOLD
STOCK

5. RECYCLING. - IT IS NORMAL THAT PART OF SURPLUSES ACCRUING
TO OIL-EXPORTING COUNTRIES SHOULD BE CHanneLED
TO IMF AND IBRD FOR USE IN HELPING COUNTRIES WITH PAYMENTS
DIFFICULTIES. IT IS ALSO NORMAL THAT PART
OF THESE SURPLUSES SHOULD BE CHanneLED THROUGH EURO-
DOLLAR MARKET. HOWEVER, FRANCE WANTS EC TO ADDRESS
THIS MATTER IN COORDINATED FASHION, AND OTHER MEMBER
COUNTRIES SEEM TO BE COMING ROUND TO THAT VIEWPOINT.
"FOR OIL-PRODUCING COUNTRIES, IDEA OF HAVING PART OF
THEIR RESERVES INVESTED IN FORM OF CLAIM ON EUROPE,
CARRYING CORRESPONDING GUARANTEES AND YIELD, MIGHT
WELL BE ATTRACTIVE TO THEM. AS DISEQUILIBRIUM IN OUR
BALANCE OF PAYMENTS IS TEMPORARY, AND AS VERY LARGE
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SURPLUSES OF OIL-PRODUCING COUNTRIES ARE ALSO TEMPORARY,
THE IDEA FOR THEM TO BUILD UP RESERVE HOLDINGS IN
EUROPEAN CURRENCIES IS SOMETHING WHICH PRESENTS GREAT
DEAL OF INTEREST. THERE ARE TECHNICAL PROBLEMS WHICH
HAVE NOT YET BEEN WORKED OUT: THERE MIGHT BE ARRANGEMENTS
FOR MULTIPLE CURRENCY OPTION. BUT IDEA THAT
EVERY YEAR EITHER THE GROUP OF EUROPEAN CENTRAL BANKS
OR MONETARY COOPERATION FUND WOULD FLOAT A LOAN OF
MIDDLE SIZED DIMENSIONS, THAT IS, A FEW BILLION DOLLARS,
OPEN NOT TO PRIVATE PARTIES, BUT TO CENTRAL BANKS OF
OIL-PRODUCING COUNTRIES, APPEARS TO ME TO BE POSITIVE
IDEA. WE ARE GOING TO TRY TO ADVANCE IT."
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